

The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

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It's A Two-Quarter Drop . . .

For the first time since the 1973-75 recession, the gross national product has declined for two quarters in a row. After falling at an annual rate of 1.6 per cent in the second quarter, the inflation-adjusted output of the nation's goods and services contracted at a seasonally adjusted annual rate of 0.6 per cent during the third. Although this decrease seems relatively small, it is more ominous than it looks. The reason is that most of the overall decline was accounted for by a drop in "real" final sales, while inventories continued to accumulate at a hefty pace.

Inflation-adjusted sales by businesses slipped last quarter at a seasonally adjusted \$1.7 billion annual rate—nearly 80 per cent of the overall GNP decline—a much faster rate than industries were able to trim production. As a result, inventories continued to pile up, increasing by \$10.3 billion in the third quarter, following a rise of \$10.8 billion in the second. This was the largest two-quarter increase in over two years, and plainly does not augur well for the economy in the current quarter. If final sales do not pick up substantially in the very near future, many manufacturers will be forced to reduce production further, in an attempt to eliminate excess stocks now in their warehouses.

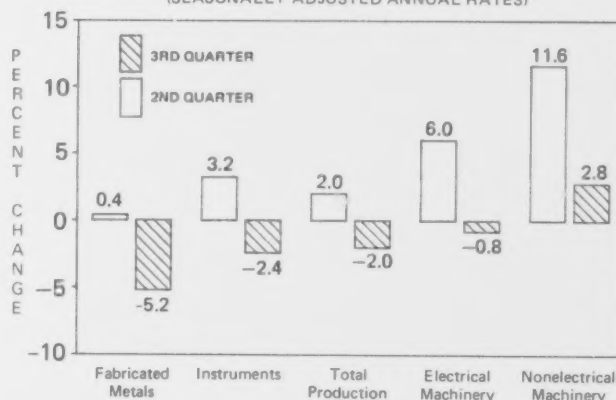
. . . With Another Likely

Unfortunately, a significant pickup in final sales may be long in coming. Real retail sales have been stagnant for the past nine months and their volume is currently lower than it was last January. What is more, by the end of the last quarter, consumers became even less optimistic about the economy than they were earlier and that usually indicates that their spending will tighten even more.

The Consumer Confidence Index measured by the Conference Board dropped by ten points in September and the Buying Plans Index indicates that within the next six months consumers intend to buy fewer automobiles, homes, major appliances and carpeting. However, should manufacturers cut production and reduce their payrolls even further in the current quarter, decreasing consumer job prospects, consumer spirits could sink even lower,

thus dampening purchases during the highly important Christmas selling season.

PRODUCTION OF SELECTED INDUSTRIES:
PERCENT CHANGE IN SECOND AND THIRD QUARTER 1981
(SEASONALLY ADJUSTED ANNUAL RATES)



Industrial production fell a seasonally adjusted 0.8 per cent in September, following a 0.3 per cent decline in August. This was the sharpest drop since the 1.7 per cent decline in June, 1980, when the country was just coming out of a steep power dive. The weakness was limited not just to housing and automobiles, but was widespread among industries, and particularly noticeable in durable manufactured goods. Among the major categories, only defense and space equipment-related industries posted increases; the rest retreated.

For example, production of primary metals fell by 4.3 per cent in September, fabricated metals by 1.2 per cent, nonelectrical machinery by 0.7 per cent and electrical machinery output dropped by 1.2 per cent. Production of consumer goods decreased by 0.3 per cent in September, continuing the decline of the preceding three months, while business equipment showed its first drop since February. Overall, in many major industries, production schedules slowed considerably during the July-September quarter from the April-June period, some posting substantial declines (see chart).

The latest survey of purchasing managers of major U.S. corporations suggests that production levels



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will be reduced again in October. In their September report the purchasing agents disclosed that new orders are coming in at a slower pace for some companies and declining for others, inventories are mounting and an increasing number reported a slide in production schedules.

Unemployment May Be Heading Higher

September's rise in the jobless rate to 7.5 per cent of the labor force, from 7.2 per cent in August and seven per cent in July is also worse than it looks. It reflected the second consecutive monthly decline in total nonagricultural employment, which resulted in a slowing in the growth in wages and salaries. During September, total employment, calculated from the

monthly survey of households, declined by 675,000 workers—which, with one exception, is the largest one-month drop in 13½ years.

Presaging further weakness in the employment situation was the September drop in the average workweek of production workers. Traditionally, businessmen first cut down on overtime and the number of hours worked per week, before actually laying off workers. This trend was particularly evident in manufacturing, where the average workweek was down by 2.2 per cent and overtime hours were off by almost 15 per cent. Because of the deterioration in the employment situation, monthly growth in personal incomes slowed to 0.8 per cent in September. It would have been even smaller

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 10/14/81	Change Since	
		Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	131.984	+ 1.440	+ 1.004
Loans to Depository Inst.	1.110	— .036	— .001
Float	2.795	— 1.324	— .553
Total Reserve Bank Credit	145.062	+ .098	+ 3.863
Treasury Deposits with			
Federal Reserve Banks	2.957	— .588	— .349
Currency Outside Banks	123.783	+ 1.319	+ 4.831
Member Bank Reserves:			
Required	39.742	— .363	— 1.211
Excess (Deficiency)	.102	— .115	— .133
Total Reserves Held	39.844	— .478	— 1.344
Net Borrowed Reserves	.850	+ .077	+ .035
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	91.163	+ .321	+ 4.479
		% Change Since	
		Three Months Ago*	Year Ago
Monetary Aggregates †			
M1-B	433.4	+ 2.1‡	+ 4.3‡
M2 (September '81)	1,786.7	+ 8.6	+ 8.6
M3 (September '81)	2,132.1	+ 10.2	+ 11.5
L (June '81)	2,502.7	+ 9.4	+ 11.4

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

	3 Months	6 Months	1 Year
Offering Rates 10/23/81			
‡ U.S. Treasury Bills	13.05%	13.65%	13.45%
* Federal Agencies	14.00	14.60	15.20
* Project Notes—Taxfree (46% Taxable Equivalent)	15.28	16.20	NA
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	15.30	15.60	16.15
‡ Finance Company Paper—Prime		‡ Bankers' Acceptances	
5- 14 days	15.00%	Nov.	14.85%
15- 29 days	15.00	Dec.	14.85
30- 59 days	14.88	Jan.	14.85
60- 89 days	14.63	Feb.	14.80
90-179 days	14.00	Mar.	14.80
180-239 days	14.00	Apr.	14.50
240-270 days	13.75		
‡ Industrial Paper—Prime		† Federal Funds Effective Rate	14.90%
30- 89 days	14.75%		
90-120 days	14.80		
‡ Discount basis.	* Subject to availability.	† Estimated.	

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'81n	\$ 2,947	\$ 2,886	\$ 2,637
Gross National Product (1972 Dollars)*	3rd Q'81n	\$ 1,508	\$ 1,510	\$ 1,472
Percent Change, Annual Rate	3rd Q'81n	— 0.6%	— 1.6%	2.4%
Change in Consumer Prices (all urban consumers)*	Sept '81n	14.4%	9.6%	12.0%
Change in Producer Prices*	Sept '81	2.4%	3.6%	3.6%
Civilian Employment (Thousands of Persons) †	Sept '81	98,270	98,944	97,180
Unemployment as % of Civilian Labor Force †	Sept '81	7.5%	7.2%	7.4%
Personal Income*	Sept '81n	\$ 2,461	\$ 2,441	\$ 2,206
Leading Indicators Composite Index (1967=100) †	Aug '81	133.3	134.5	130.7
Industrial Production Index (1967=100) †	Sept '81	152.1	153.3	144.4
Net Change in Consumer Installment Credit †	Aug '81	\$ 2.86	\$ 1.95	\$ 0.49
U.S. Merchandise Trade Balance †	Aug '81	— \$ 4.48	— \$ 0.54	— \$ 0.63
Plant and Equipment Expenditures*	4th Q'81	\$332.69(a)	\$322.88(a)	\$299.58
Private Housing Starts (Thousands of Units)*	Sept '81n	918	934	1,482
New Construction Expenditures*	Aug '81	\$ 231.0	\$ 234.8	\$ 217.9
Total Business Inventories †	Aug '81	\$ 501.7	\$ 498.1	\$ 468.9
Total Business Sales †	Aug '81	\$ 350.8	\$ 354.5	\$ 317.9

* Seasonally adjusted annual rate.

† Seasonally adjusted.

n-Nonseasonally reported figures.

a-Partially estimated.

except for a \$7 billion jump in interest income, which accounted for almost one-half of the increase.

Although retail sales expanded last month by 0.4 per cent, almost all of the gain was due to rising prices. Nevertheless, about one-half of the increase reflected the relatively strong performance of automobile dealers, as sales increased temporarily in response to various rebate programs and interest rate subsidies.

Finally, the number of housing units started in September fell again, to a seasonally adjusted annual rate of 918,000 units. This is the lowest rate recorded since February, 1975, and although it represents only a slight decline from the August rate,

housing starts are currently running 38 per cent below the year-earlier level. In addition, reflecting the depressed condition of the housing market earlier this year, the number of housing units completed slipped by eight per cent in August compared with July levels.

Both of these developments have had, and will continue to have, serious repercussions on many housing-related industries. The decline in construction has already led to a sharp decline in demand for various materials including lumber, steel, copper and other building supplies, while the drop in the number of finished homes has had an adverse impact on such "downstream" industries as home furnishings and home appliances.

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Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since	
		Week Ago	Year Ago
Negotiable Time CD's			
Weekly Reporting Banks			
Nationwide (10/7/81)	132,654	+ 1,715	+35,215
New York City (10/7/81)	32,428	+ 575	+ 9,311
Commercial Paper (10/7/81)	163,186	+ 1,470	+39,452

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans			
	Latest Week	Change Since	
		Week Ago	Year Ago
Weekly Reporting			
Large Commercial Banks			
Nationwide (10/7/81)	188,147	+ 114	+22,226
New York City (10/7/81)	54,872	+ 214	+ 6,056
Total Loans Gross Adjusted			
	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (10/7/81)	460,655	+ 198	+50,219
New York City (10/7/81)	109,879	- 2,594	+16,131

Financial Markets

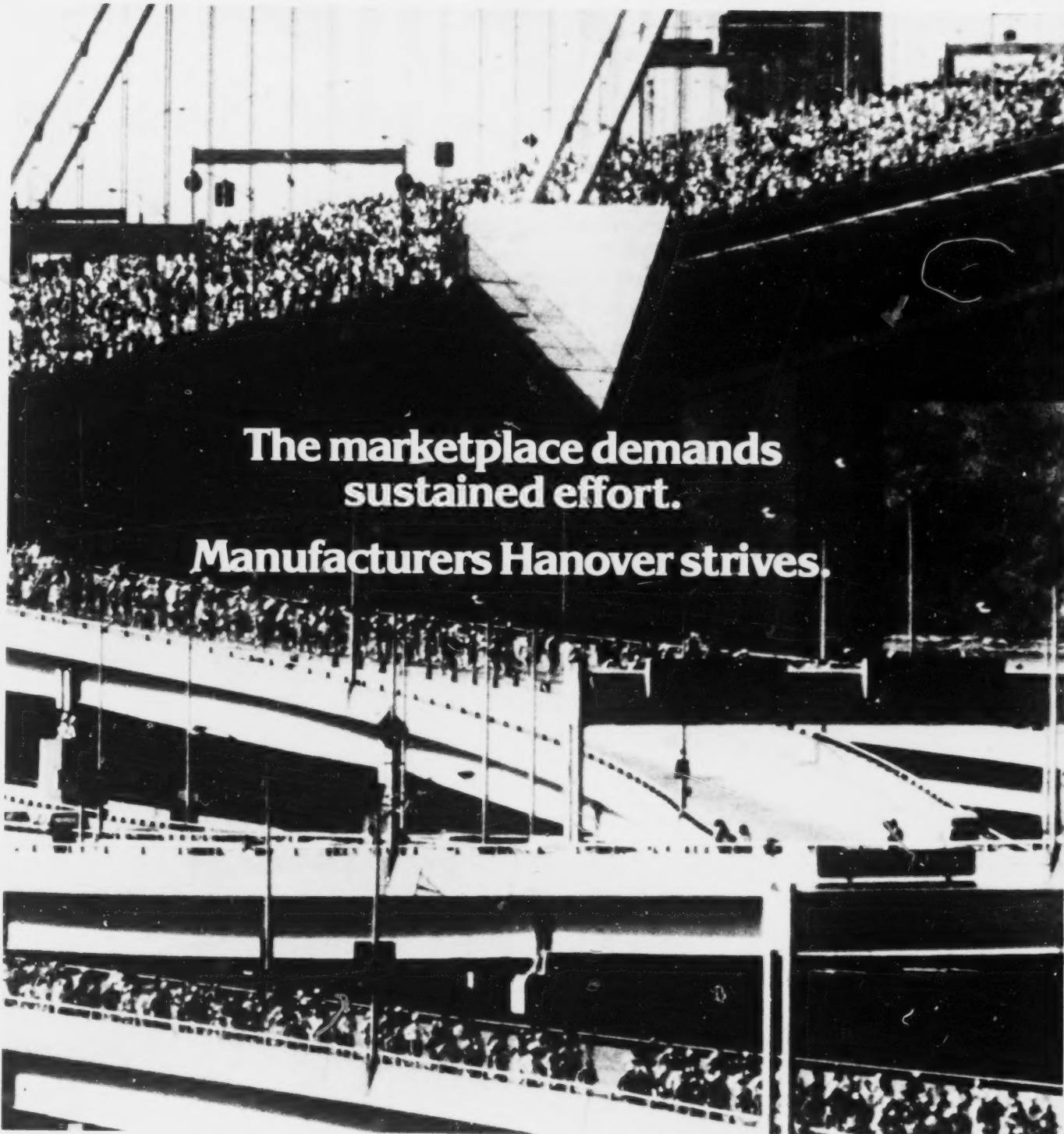
	Friday 10/23/81	Change Since	
		Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	13.75%	- .15	+ 2.00
180-Day Bills†	14.77	+ .12	+ 3.02
Longest Bill†	15.08	+ .18	+ 3.62
Recent Issues:			
15 ¹ / ₂ s 10/31/83 (When Issued)	15.26	NA	
157/8s 9/30/85	15.32	+ .30	
147/8s 8/15/91	15.36	+ .66	
137/8s 5/15/11	14.76	+ .49	
Municipals:			
Bond Buyer—20 Bond Index* (10/22/81)	12.99%	+ .46	+ 3.93
Blue List Total (\$ Million)	\$ 793	+ \$ 96	- \$ 146
30-Day Visible Supply (\$ Million)	\$2,195	+ \$739	+ \$ 485
Total	\$2,988	+ \$835	+ \$ 339
Corporates:			
Moody's Aa Composite (10/22/81)	15.84%	+ .33	+ 3.17
30-Day Visible Supply (\$ Million)	\$8,299	- \$150	+ \$4,619
Stocks:			
Dow-Jones Averages:			
Industrials	837.99	- 13.70	- 105.61
Transportation	367.16	+ 3.45	- 6.31
Utilities	103.19	+ .11	- 9.55
65 Stocks	333.26	- 1.74	- 27.31
Standard and Poor's 500 Stocks	118.60	- .59	- 11.25
N.Y.S.E. Composite Index	68.83	- .30	- 6.07
N.Y.S.E. Avg. Daily Vol. for Week (000's)	44,928	+ 6,016	- 194

International Rates

	Friday 10/23/81	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	15.13%	14.75%
1 month	15.63	15.50
3 month	16.31	16.19
6 month	16.56	16.44
1 year	16.50	16.38
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	15.55%	15.45%
Long Term (7 to 15 yrs.)	15.55	15.50
FOREIGN EXCHANGE SPOT RATES		
New York Opening	U.S. \$	Currency
(10/23/81)	Equivalent	Per U.S. \$
Belgium	.02627	38.06
Canada	.8301	1.2047
Denmark	.1371	7.2934
France	.1750	5.7145
Germany	.4392	2.2768
Italy	.0008298	1205.00
Japan	.004286	233.33
Mexico	.03937	25.40
Netherlands	.3982	2.5110
Switzerland	.5270	1.8975
U.K.	1.8190	.5498

* 46% Taxable equivalent 24.06%.

† Bond equivalent.



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sustained effort.**

Manufacturers Hanover strives.

The New York City Marathon, co-sponsored by Manufacturers Hanover.

Winning a 26.2 mile marathon takes planning, positioning, and a willingness to reach beyond the levels of ordinary endurance.

In very much the same way, Manufacturers Hanover has prepared for the future. And our planning, our positioning, and our willingness to accept challenges are paying off in a number of significant ways.

For example, Manufacturers Hanover subsidiaries now have more offices nationwide than any other bank holding company.

This extensive network provides immediate access to large corporate customers and middle market companies all across the land. Not simply to serve their banking needs, but also to provide equipment financing, mort-

gage servicing, factoring—in fact, financing of virtually every size and shape.

But the race is a long way from being over. As the future unfolds, fluxes and evolves into needs for new kinds of financial relationships, Manufacturers Hanover will be totally prepared to supply whatever the national—and international—marketplace demands. Consider the source.

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